JANUARY 1, 1992
A BILL PUBLICATION

RB

RESTAURANT BUSINESS

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SHOWDOWN

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BUSINESS BAROMETER

Singles Big Restaurant Patrons

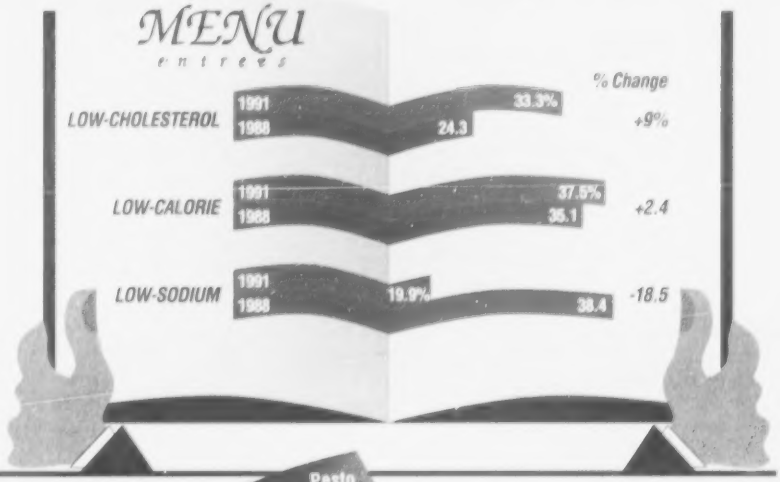
Singles under 45 are by far the most frequent visitors of restaurants and foodservice establishments of all categories. Next biggest user: older marrieds.

	Single, under 45	Single, over 45	Married, under 45	Married, over 45
Tableservice, (over $10 avg. check)	25%	17%	16%	21%
Tableservice, (under $10 avg. check)	42	35	28	35
Fast Food	41	17	25	19
Carry-out	44	26	36	17
Cafeteria, buffet	24	13	13	19
Delivery	20	6	11	3

Source: National Restaurant Association

Low-Cholesterol Up, Low-Sodium Down

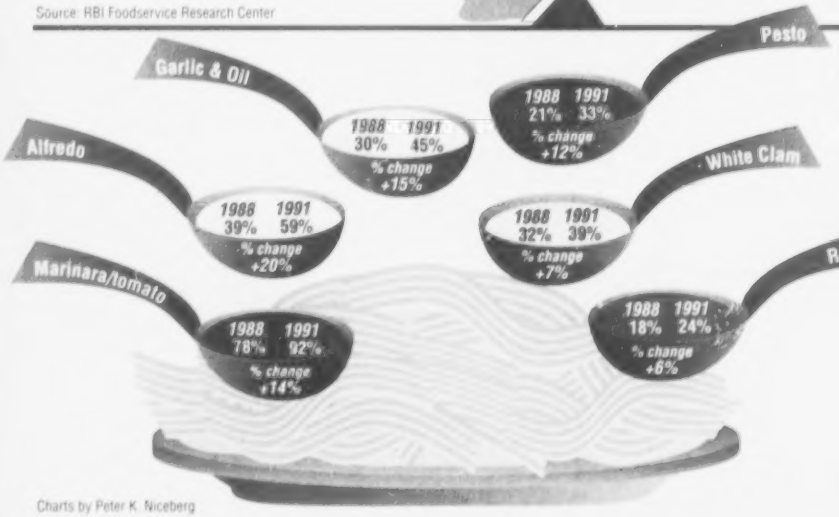
Restaurant operators have been menuing more low-cholesterol entrees and to a lesser degree low-calorie dishes since 1988. Low-sodium entrees have declined dramatically; this may reflect decreased health concerns over salt intake.



Source: RBI Foodservice Research Center

What's On The Pasta?

Pastas with sauces of all kinds are on the upswing. Pesto sauce and garlic and oil have gained prominence among restaurateurs in the past three years. However, the top two choices continue to be marinara and Alfredo.



Charts by Peter K. Niceberg

Source: RBI Foodservice Research Center

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Cover illustration by Todd Lockwood

Published monthly except semi monthly in Jan., Mar., May, July, Sept., and Nov. by Restaurant Business Magazine. (ISSN 0097-8043). 633 Third Ave., New York, NY 10017. Vol. 91, No. 1. Second Class Postage paid at New York, NY, and additional office (USPS 917-180). Canadian Post International Publications Mail (Canadian Distribution) Sales Agreement No. 546275. Postmaster please send address changes to Restaurant Business, P.O. Box 5309, Grand Central Station, New York, NY 10017.

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RESTAURANT BUSINESS Magazine (formerly FAST FOOD) (ISSN 0097-8043) is published monthly except semi-monthly in Jan., March, May, July, Sept., and Nov. by Bill Communications, Inc., 633 Third Ave., New York, NY 10017. Telephone: 212-986-4800. Copyright © 1992 by Bill Communications, Inc. All rights reserved. Subscriptions in the U.S. $79; Canada, $114; foreign surface $124; airmail, $212. Single copies in the U.S. and Canada, $7. Second class postage paid at New York, NY, and at additional offices. Postmaster: Send address corrections to Restaurant Business, Attention: Roseanne Walsh, Circ. Dept., 633 Third Ave., New York, NY 10017-6743.

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HAMBURGER

MARKET SEGMENT REPORT

Customer counts, sales, and profits continue to decline.

By Carol Casper

The fortunes of the hamburger segment in 1991 presented a mosaic of successes, recoveries, and disappointments. The top three chains continued to struggle with varying results against the tide of declining customer counts, sales, and profits that have plagued them for the last few years. Fourth-place Wendy's, on the other hand, with record sales and earnings, is revving up for a renewed expansion drive.

Menu initiatives that respond to the public's demand for lighter, healthier foods and greater variety almost make it hard to find the hamburgers on some chains' menus these days. In the wake of this development, the rapidly expanding double-drive-thru sector seems to be taking over the function that the major hamburger chains used to perform but have largely grown beyond: serving a strictly limited menu of simple food, fast and cheap. The double-drive-thru's success and other evidence indicate that the hamburger has not lost its status as America's national food. A recent survey conducted for the National Restaurant Association shows that hamburgers or cheeseburgers still rank as the most popular item among American restaurant diners: They are included in 17% of all orders. Their share, however, dropped from 19% in a survey conducted three years ago. Pizza, the next most popular item, rose from 12% to 13%.

Central Park USA was one of the pioneers of the drive-thru-only concept. This subsegment is rapidly expanding.

That trend may not overly worry McDonald's, which continues to expand its much-discussed pizza tests. About 500 U.S. locations now serve pizza. An anticipated national rollout has been delayed, however, until the chain can put together a complete dinner menu of which pizza will be just one element.

The last two years have been a time of

continued on page 118

unprecedented menu expansion and experimentation for the traditionally conservative, Oak Brook, IL-based giant, which operates over 8,700 restaurants in the U.S. and more than 12,000 worldwide. Introductions have included its 91% fat-free McLean Deluxe hamburger, low-fat frozen yogurt and milk shakes, and fat-free apple bran muffins. While many new products are geared to the health trend, the company is also responding to the popularity of ethnic foods. Aside from pizza, this summer McDonald's rolled out chicken fajitas and breakfast burritos for a limited period chainwide.

Adding to the impression that one never knows what to expect from McDonald's these days, customers in New England this summer were treated to a lobster sandwich.

Given the array of other items under test in its corporate kitchens or in limited markets, these developments appear to be just the beginning. This past summer McDonald's began testing skinless, oven-roasted chicken at a handful of stores and expanded the availability of fried chicken wings. In September it introduced pasta in the Rochester, NY, locations as part of its work on dinner.

These product initiatives are just one facet of the world's largest restaurant chain's efforts to reverse the trend of dwindling customer counts and flat store sales that have dogged it for the last few years.

Other responses include the introduction of its own value menu of selected items promoted on a regular basis, such as 59¢ and 69¢ hamburgers and cheeseburgers. Michael Mueller, an analyst with Montgomery Securities, San Francisco, notes. It is also working to bring bloated investment costs back in line with sales through improved construction methods and downsized units, and is exploring alternative sites.

Another potential distribution route may be airline feeding. Last summer McDonald's announced it would team up with United Airlines to provide special children's meals on flights to and from Orlando, FL. It is expected the program will eventually be expanded throughout United's system.

With the U.S. market nearing saturation, the company has also stepped up overseas expansion. Roughly two-thirds of McDonald's new openings over the next few years will be abroad.

Burgers are included in 17% of all orders.

The firm also surprised many with its first venture outside the food business this year: a paid-admission indoor playground called Leaps & Bounds.

All the activity may be starting to have some positive impact. Restaurant analyst Peter Oakes of Merrill Lynch, New York City, estimates McDonald's U.S. systemwide same-store sales rose slightly in the third quarter of '91, their first gain since the beginning of 1990. Mueller adds that although company-owned store operating revenues dipped slightly in the third quarter, by 0.3%, that was a significant improvement over the double-digit decreases of the first two quarters of '91, which followed a net fall of 9.4% in 1990.

With close to $13 billion sales in the U.S. market alone, McDonald's performance in 1992 will be largely dependent on the macro-economic climate, Oakes adds. While McDonald's has its work cut out for it, observers agree that it has staked out some paths to recovery.

UNCERTAIN DIRECTION. The direction being pursued by second-place Burger King, however, appears less certain to analysts. With fewer than two-thirds as many U.S. units as McDonald's and just over half as many stores worldwide, the chain, based in Miami and owned by Grand Metropolitan, PLC, of London, is aggressively opening new units on a market-by-market basis both at home and abroad, notes Wendy Lester, media spokeswoman. Burger King's total system sales in 1990 reached $6.1 billion. By mid-'91, it had 5,522 U.S. and 841 international units.

One clear development is that Burger King is increasing its marketing of national branded products. In October it hired Sidney Feltenstein,

Burger King's BK Broiler is a lighter addition to its menu.

formerly senior vice president of marketing with Dunkin' Donuts, as executive vice president, brands strategy.

According to Lester, company leadership believes its branded approach "enhances our own brand and increases perceived value to the customer." Burger King's switch to Newman's Own salad dressings two years ago reportedly helped double salad sales overnight. Since then, Burger King has rolled out Snickers ice cream bars, Breyer's frozen yogurt, and most recently Famous Amos chocolate chip cookies. In addition, the chain has begun a new health-oriented menu.

Dubbed "Your Way the Lighter Way," it debuted in 144 locations in four cities last fall, and will be expanded in '92, says Lester. In addition to the already popular BK Broiler, the light menu includes Weight Watchers entrees like fettuccine with broiled chicken and angel hair pasta, broiled chicken salad and garden salads, veggie dips, Weight Watchers brownies and mocha pie, and frozen yogurt.

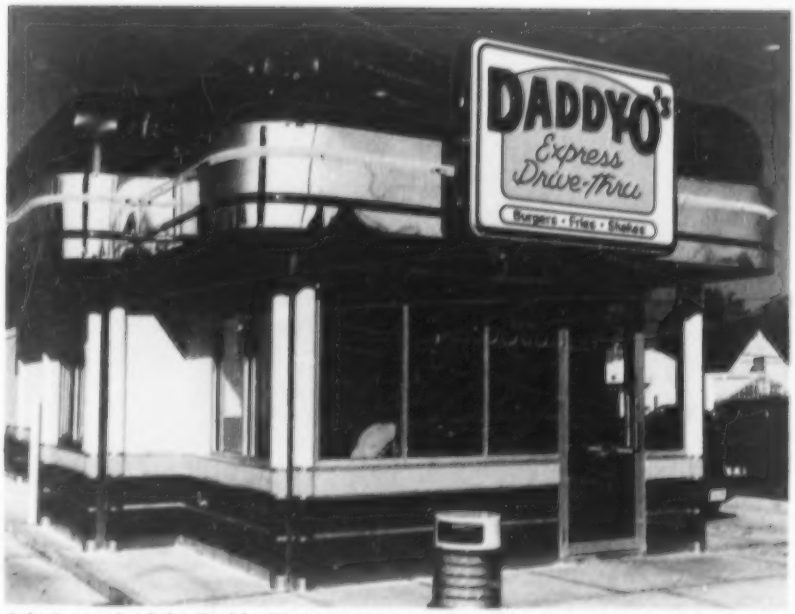
Like McDonald's, Burger King is also exploring pizza. A test of Domino's pizza ended last year but the chain is looking at another pizza product, Lester comments. Burger King also introduced a miniature Breakfast Buddy sandwich in '91.

Its "Your Way Right Away" slogan emphasizes the variety of choices and suggests that customers can have their orders prepared however they like, without any extra wait, Lester says.

The company's view on value pricing, she adds, is that it can be a short-term tactic, but not a strategy. "We've offered short-term discounts, but as a long-term strategy, we feel value pricing devalues the product in the consumer's mind."

COMPLICATIONS. The number-three chain, Hardee's Food Systems, Rocky Mount, NC, has also been struggling to improve same-store sales and customer counts. Its efforts have been complicated by the absorption of 648 Roy Rogers units acquired in early 1990.

To date, 400 Roy Rogers have been converted to Hardee's restaurants and 600 Hardee's have added Roy's fried chicken to their menu. Eventually all will serve it. On the plus side, the acquisition has given the Imasco Ltd. subsidiary significant penetration in regions where it had been under-represented, Oakes comments. However, the conversions have caused customer confusion and Hardee's has struggled to retain Roy Rogers' patrons.



Arby's acquired the Daddy-O's concept as an alternative expansion vehicle.

In 1990, the company suffered a disappointing 42% drop in operating earnings. The value pricing wars and heightened competition contributed to further drops in earnings and same-store sales in the first three quarters of '91. During the course of the year, the firm has made progress in reducing costs and seems to have stemmed the dramatic downtrend in earnings. The need to improve restaurant sales, however, remains a priority.

Among its strengths, Hardee's maintains an edge at breakfast, leading the segment in that daypart's percentage of total sales. The company hopes to win additional dinner business as well, particularly through its new fried chicken.

Hardee's also hopes to build sales with four deli subs, all priced under $3, rolled out last fall. It is too early to predict if the line will become a permanent feature, says public relations director Jerry Singer. The company also continues to test a reduced-fat burger. Introduced last April as "The Lean 1," the product has been reformulated and is now being served in 400 units as the "Real Lean Deluxe."

GOOD PERFORMANCE. The only hamburger chain of the top four that appears delighted with recent performance is Wendy's International Inc., Dublin, OH. Wendy's earnings rose 26.3% in the third quarter of 1991, marking its highest quarterly earnings in five years and its sixth straight quarter of year-to-year earnings gains. Restaurant operating margins rose to 13.7% compared to 12.7% in the third quarter of 1990. Average sales per domestic company unit rose 5.6% for the first three quarters of '91 compared to the same period the prior year.

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The company also increased customer traffic 5.3% in the first nine months of 1991 and expanded market share. Major contributors to its success, management says, were its ad campaign starring founder Dave Thomas and its Super Value Menu, which consists of at least seven products plus options, all priced at 99¢.

Wendy's plans to continue the Super Value Menu for the foreseeable future. "We believe very strongly in the 99¢ price point," Charles Rath, executive vice president, marketing, says.

While the 99¢ menu attracts price-conscious consumers, Wendy's is also working the other end of the spectrum with a number of premium specialty sandwiches. In 1991, they included a popular grilled chicken sandwich, Dave's Deluxe—a quarter-pound hamburger with cheddar, bacon, and sautéed onions, and a chicken cordon bleu with Swiss cheese.

DINNER TRADE. Like the other hamburger chains, Wendy's is eying the dinner market for greater opportunity. Because evening trade often includes larger parties, the company believes its variety can be a big pull. In addition to its Super Value assortment and specialty sandwiches, customers can choose the Super Bar buffet, which includes pasta and Mexican items as well as salads, Rath points out.

The chain's main weakness now, management says, is lack of distribution, with about 3,800 restaurants worldwide, about 3,500 of those in the U.S. The company plans to remedy this through an aggressive expansion drive aimed at building its system to 5,000 units by 1995.

A number of other hamburger chains have found success by concentrating on more limited geographic territories, demographics, or menu.

Low-fat burgers cash in on the health boom.

Carl's Jr. adds spice to its menu with a Santa Fe chicken sandwich.

Sonic Industries Inc., Oklahoma City, which operates a chain of '50s-style drive-ins, attributes its recent strong performance to its focus on well-defined geographic and menu niches.

"We know what we're not," says chairman C. Stephen Lynn. "We're not a national chain, we're not in the healthful food industry, and we're not getting caught in the trap of menu proliferation." Sonic's offerings include burgers, hot dogs, steak and fish sandwiches, onion rings, french fries, tater tots, drinks, and ice cream. There is also room on the menu for two or three specials geared to local preferences.

Sonic operates 1,160 units in 22 Sunbelt states. By keeping expansion focused solely in that region, it aims to become the No. 2 hamburger chain in the South by 1995.

Another company with a very different, but similarly well-defined identity is Foodmaker Inc.'s Jack in the Box, San Diego. It has carved out a niche as an adult-oriented fast-food concept, says executive vice president of marketing Mo Iqbal. Since shifting its positioning from the parent-with-child market to the adult upscale consumer in 1980, its name no longer identifies it with the child's toy so much as it conjures up associations of surprise—to emphasize that "There's always something new and exciting at Jack in the Box," Iqbal explains.

The chain was a pioneer in the kind of rapid development and deployment of new products that is now being seen in other burger chains. Innovations include an Old Fashioned Patty Melt—a quarter-pounder with two kinds of cheese, bacon, and grilled onions on grilled rye bread; a steak fajita melt; pastrami melt; seasoned curly fries; a chicken and mushroom sandwich; and sourdough breakfast sandwich.

Jack in the Box aims for offerings that are unique, and perceived as "a notch or two above" the fare served at most fast-food restaurants, Iqbal adds.

The fifth-largest hamburger chain, Jack in the Box operates in a dozen Western and Southwestern states stretching from Hawaii east to Missouri and Louisiana. The company ventured into the international arena in 1991, opening two restaurants in Hong Kong and one just over the border from headquarters in Tijuana, Mexico. Four more are expected to open in Tijuana and Mexicali in 1992, and in additional Mexican cities soon after.

Jack in the Box added 60-plus units

in all in '91, bringing its total to over 1,100. Close to 70 openings are planned this year. Systemwide sales in 1991 passed the $1 billion mark.

REGIONAL SCOPE. Next-ranked Carl's Jr., owned by Carl Karcher Enterprises (CKE) Inc., Anaheim, CA, is another Western regional, but with a smaller scope. It operates in just four states: California, Arizona, Nevada, and Oregon. The company plans significant expansion in the Northwest over the next five years, but presently 80% of its units are in California.

"Our units and menu tend to be a little more upscale than most of the segment, and we're not playing the price wars," comments spokesperson Pat Parks. "Our restaurants have salad bars, and the interiors are a little more comfortable than most other chains."

Eat-in business plays a bigger part for Carl's Jr. than for most other hamburger chains, contributing 60% of sales. The chain's average annual unit volume of $1.1 million is also on the segment's high side.

CKE had close to 626 units at the end of '91 including 11 outside the U.S. International development is relatively new and starting to heat up.

Domestically, the chain increased its percentage of franchised stores to 30% by selling some company units to franchisees and concentrating development efforts on the franchise side. CKE plans to increase the proportion to 40%.

Carl's Jr. added some spicy items to its menu last year including a Santa Fe chicken sandwich and Southwest-style cheeseburger, followed by a teriyaki chicken sandwich. It also serves baked potato entrees and as part of its 50th anniversary celebration, reintroduced hot dogs and chili dogs last year.

Another company celebrating a milestone in 1991 was White Castle Systems Inc., Columbus, OH. In honor of its 70th year, White Castle offered a 70¢ value menu during the first quarter featuring items like double cheeseburgers and chicken sandwiches.

VALUE PIONEER. While other chains have popularized the term "value pricing," White Castle lays some claim to pioneering the concept. For years it has offered some of the lowest price points in the segment. Its signature small, square hamburgers, for example, are still priced in the mid-30¢ range.

"No one else can match that price except on a limited-time basis, while we offer great prices on hamburgers, fries, and drinks every day," says director of marketing Charles Thomas. White Castle burgers also have a distinctive flavor profile and texture from being steam-grilled with onions.

The chain is generally sticking with its conservative approach to menu expansion, Thomas adds. A breakfast sandwich added in 1990 was one of its few chainwide rollouts in years. The only one since is a cinnamon roll, which will probably go systemwide soon.

Its marketing and advertising efforts continue to focus on its limited core menu, he adds. A new TV and radio campaign this year takes a humorous approach. It features Don Adams of "Get Smart" fame, capitalizing on his popular '60s TV show.

White Castle's stores are 100% company-owned except for a few licensed units in the Caribbean and Malaysia. It had 256 units at the end of '91 and projects opening about 10 to 15 per year. Systemwide sales last year climbed to over $305 million. Despite its limited menu, average annual unit volume is near $1.3 million—the segment's highest except for McDonald's.

A little further south, Chattanooga, TN-based Krystal Co. has followed a path similar to White Castle in many ways, but is now orienting its growth in a different direction. Like White Castle, Krystal's signature is a miniature burger—weighing less than 1 oz.—which is grilled along with the bun on a bed of onions under a steam hood. A typical order includes three to five Krystals, says vice president of marketing Tom Whitley. Customers can also order double-Krystals stacked two high.

Krystal's 232 full-service restaurants are open 24 hours a day. They serve full-size traditional burgers

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THE TOP 10 HAMBURGER CHAINS

	U.S Units	1990 U.S. Sytemwide Sales (000's)	Average Unit Volume (000's)
McDonald's	8,576	$12,251,600	$1,649
Burger King	5,469	5,250,000*	1,020
Hardee's/Roy Rogers	4,022	3,360,000*	940
Wendy's	3,436	2,835,000*	811
Jack in the Box	1,040	944,000	1,000
Carl's Jr.	583	575,000	1,100
Sonic Drive-Ins	1,043	454,579	446
Whataburger	452	319,000	706
White Castle	249	291, 277	1,194
Rally's	297	203,043	900*

*Technomic estimate

Source: Technomic Inc.

CHART BY SHARI FANG

and offer full breakfast menus.

It embarked on a new direction in 1990, however, with the debut of its Krystal Kwik double-drive-thru, which will become its main growth vehicle, says Whitley. In conjunction, Krystal launched its first franchising drive. Krystal will continue some expansion of its full-service stores, but drive-thrus will account for 80% of new openings in the next few years. Franchising will also be limited primarily to the drive-thrus, because they are easier to run, Whitley says. Nine franchised Krystal Kwiks are now open. The chain expects to add 20 to 30 more in 1992, plus two company-owned units.

The drive-thrus offer a scaled-down menu. Systemwide sales topped $200 million in '91. Krystal's full-size units average $920,000 annual sales, Whitley adds, while double-drive-thrus do about 70% of that figure.

DOUBLE POTENTIAL. The great potential that exists for double-drive-thrus is evident from the growth of Louisville, KY-based Rally's Inc., which placed third in *RB*'s Top 50 Growth Chains in 1991. Rally's had more than 325 units open at the end of 1991, just under two-thirds of them franchised.

Its growth was accelerated through the acquisition of two other chains, Snapps and Maxie's, with 42 and 18 units respectively. Most have already been converted to Rally's. Further acquisitions remain a possibility, says Bruce Ley, executive vice president, marketing. Without any, the company expects to open 95 units in '92.

Rally's operates in 22 states and its main objective is to increase its concentration. "We would like to grow to 500 stores in those same states," Ley says. "Marketing clout is very important."

The company narrowed its menu focus under the new leadership of chairman and CEO Burt Sugarman and president and COO Wayne Albritton, who took the helm early last year. "We've gone back to our roots, streamlining the menu for faster service and emphasizing low prices," Ley observes. Rally's reduced the number of different sizes and deleted hot dogs, chili dogs, chili, and BLTs, but added a new soft taco. Its value emphasis is apparent in its combo offer, Ley adds—a hamburger, fries, and drink for $1.97.

Juicy Lucy's claims to offer a more upscale product than most drive-thrus.

Drive-thru-onlies fill a need for speedy service.

With only about 800 double-drive-thrus now operating nationwide compared to tens of thousands of other hamburger restaurants, Rally's feels the segment is wide open for growth,.

Arby's Inc., Miami, which built its success as an alternative to hamburgers, is also convinced of the potential for double-drive-thrus. It bought fledgling chain Daddy-O's from G.D. Ritzy's in late 1990 and will expand the hamburger drive-thru concept through franchised and company growth.

Late last year Arby's had six units open and six franchisees signed. It hopes to open 25 stores in 1992 and eventually expand the chain at a rate of 100 stores per year, says Gaylon Smith, senior vice president of Arby's franchise group.

Daddy-O's features a '50s look and flame-broiled burgers plus a more extensive menu of other items than most other double-drive-thrus. Included are fish and chicken sandwiches, hot dogs, burritos, and a unique quarter-pound grilled bologna sandwich. The concept provides a new expansion route for franchisees who have maxed out their territories with the original Arby's Restaurant concept, Smith says.

STRAIGHTFORWARD. Central Park USA Inc., Chattanooga, TN, which claims to have originated the double-drive-thru format in 1982, is perhaps the only chain that has stuck consistently with the original limited-menu, no-frills version of the concept.

"We're very focused, very straightforward. We sell just hamburgers, french fries, and soft drinks," says president Bobby Davenport Jr. "We're also strictly drive-thru service." This approach has allowed the chain to keep

both menu prices and store development costs at rock bottom, he says. The chain's quarter-pound burgers sell for just 89¢, and the investment to open a unit ranges from $160,000 to $220,000.

Central Park operated close to 80 units, mainly franchised, at the end of last year and expects to average about one new opening per month in '92. The stores are located in a 10-state area in the Southeast except for six in Salt Lake City. Those could eventually form the nucleus for a western expansion, says Davenport.

Zipps Drive-Thru, St. Louis, which opened in 1987, has also kept its system simple but not quite as limited as Central Park. In addition to hamburgers and one size of fries, it sells chicken sandwiches and chili, but is unlikely to expand the menu further, says president Bob Gontram. Zipps operates about 50 units in several Midwestern cities and Memphis, TN.

Growth for Nashville-based Beefy's Inc., another double-drive-thru, was nearly static in 1991 due to the tough environment for franchise financing, says franchising director Ed Griswold. However, the company expects to get back on track in 1992 with 30 openings that would double its system. Beefy's stores dot far-flung markets from Tucson, AZ, to Rochester, NY, and Pittsburgh, but its largest concentration is in the Southeast. Its menu is on the broader side. Beefy's also offers a kid's meal.

In business eight years, Beefy's plans to expand nationwide, Griswold adds. "We believe a lot of the double-drive-thrus will get washed out of the market in the next few years. We think we'll be one of the survivors."

Perhaps the most unusual double-drive-thru operating today is Juicy Lucy's, which opened in Fort Myers, FL, in 1988. Headed by CEO Robert Massie, founder of Minneapolis-based Country Kitchen, and president Suzanne Grady, also late of that chain, Juicy Lucy's features loosely hand-patted burgers and a wide variety of other fresh, home-cooked foods including barbecued pork and breaded pork loin sandwiches, hot ham and cheese, and a BLT. Despite its upscale approach to the double-drive-thru concept, its quarter-pound burger sells for just 99¢, and its most expensive sandwich, a hand-cut and breaded chicken breast, is $1.99. The stores also offer an extensive breakfast menu.

Rally's is streamlining for even faster service and emphasizing value.

The founders feel their concept appeals to a broader market of consumers who are bored by the limited selections of most drive-thrus and like the high-quality approach. Although its 1,000-sq.-ft. buildings are larger than other drive-thrus, and labor is more extensive, she points out that the chain can still retail its products for less than the major hamburger chains.

Juicy Lucy's began franchising in late 1990 and had 10 units open or under construction by late '91. It expects to add at least 15 more in 1992.

GOURMET BURGERS. While gourmet burgers are a staple at many midprice casual restaurants, only one national chain specializes in them. Fuddrucker's, owned by DAKA International Inc., Wakefield, MA, positions itself as "the home of the world's greatest hamburger," says director of corporate communications Joanne Killeen. The chain grinds its meat from beef cut fresh daily and bakes buns, along with brownies and cookies, fresh daily in each store. Everything is cooked to order.

Fuddrucker's also features chicken, steak, and fish sandwiches, fresh-made soups, soft tacos, and chicken wings, but hamburgers account for over 65% of sales. Checks average $6.35. Annual unit volumes average $1.4 million.

"We feel we're as much a part of the casual midscale segment as the hamburger segment," Killeen says. The chain operates 134 restaurants in 29 states and about a dozen locations outside the U.S. It expects to open 10 stores in 1992.

At one time, the gourmet hamburger subsegment was touted as the niche of the future. That boom was a bust. The double-drive-thru subsegment may be more viable as it fills the consumer need for truly low-cost burgers that are fast and convenient. Meanwhile, the burger giants will continue to slug it out with menu expansion and value pricing, aiming for greater market share both here and abroad. **RB**